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P.U.C. PROJECT NO. 51871

REVIEW OF THE ERCOT
SCARCITY MECHANISM

BEFORE THE
PUBLIC UTILITY COMMISSION
OF TEXAS

TEXAS RETAIL ENERGY'S COMMENTS ON PROPOSED AMENDMENTS TO §25.505

Texas Retail Energy, LLC (TRE) welcomes the opportunity to provide comments on the proposed rule amendments to 16 Texas Administrative Code (TAC) §25.505 that were submitted as a proposal for publication and approved at the Public Utility Commission's (PUC) May 6, 2021, Open Meeting. TRE applauds the commission's efforts to make changes to the scarcity pricing mechanism to enhance stability for the upcoming summer season.

TRE supports the proposed amendments to 16 TAC §25.505 but recommends that the proposed cost recovery mechanism addition be clarified to provide clearer direction to ERCOT. TRE suggests the following changes to proposed subsection (g)(7):

"During an event when the system-wide offer cap is set to the LCAP, ERCOT must reimburse resource entities which are subject to a Reliability Unit Commitment ("RUC") instruction from ERCOT for any actual marginal costs in excess of real-time revenues- with these costs to be collected from market participants that procured real-time energy during these intervals. ERCOT must utilize existing settlement processes to the extent possible to verify the resource entity's costs for reimbursement." (TRE's proposed addition in italics and deletion marked by strikethrough).

I. Elimination of Alternative Low System Wide Offer Cap (LCAP) Based on Natural Gas Price Index

TRE supports the amendments within 16 TAC §25.505(g)(6) that eliminate the provisions that link the value of the low system-wide offer cap (LCAP) to the natural gas price index. The elimination of the natural gas price index provision provides improved market predictability while reducing price volatility.

II. Generator Cost-Recovery Mechanism

TRE is not opposed to the proposed amendment in 16 TAC §25.505(g)(7), which would allow individual resource entities to be reimbursed for proven operating losses incurred during an event when the LCAP is in effect. However, the proposed subsection (g)(7) does not provide enough direction to ERCOT as to how the costs will be collected from market participants, and TRE suggests that the rule be clarified in this regard.

Market uplift should not be the mechanism used to collect funds from market participants as load serving entities cannot hedge for market uplift. Further, from a cost causation principle perspective, load serving entities that were not procuring energy during the settlement intervals that led to the increased cost above the LCAP should not bear any of the additional costs of those settlements.

Proposed subjection (g)(7) should make clear that ERCOT will charge only those entities which were counterparties to the settlements for procurement of real-time energy and they should bear the additional costs of those settlements.

TRE has addressed the cost-recovery mechanism issues by (1) eliminating the last sentence in proposed subjection (g)(7) and (2) adding recommended language to proposed subjection (g)(7) to assign costs to market participants that procured real-time energy during these intervals.

III. Reimbursement Only for Entities Subject to Reliability Unit Commitment

ERCOT Nodal Protocol Section 5 details the process related to Reliability Unit Commitment ("RUC") to ensure system reliability and that enough capacity is committed to reliably serve the forecasted load. ERCOT should use existing Protocol Section 5.6 RUC Cost Eligibility to substantiate the actual marginal costs of the resource entities. A resource entity should only be allowed to receive payments above the \$2,000 cap if that entity is subject to a RUC instruction from ERCOT. By the very nature of being at the system-wide offer cap each additional resource would be needed to ensure reliability so it stands to reason that ERCOT would utilize the RUC process.

TRE has clarified the reimbursement of resource entities by adding recommended language to proposed subjection (g)(7) to require that entities must be subject to a RUC instruction.

CONCLUSION

TRE is requesting that proposed subjection (g)(7) be modified as recommended below for the reasons as detailed above in Section II and III.

"During an event when the system-wide offer cap is set to the LCAP, ERCOT must reimburse resource entities which are subject to a Reliability Unit Commitment ("RUC") instruction from ERCOT for any actual marginal costs in excess of real-time revenues- with these costs to be collected from market participants that procured real-time energy during these intervals. ERCOT must utilize existing settlement processes to the extent possible to verify the resource entity's costs for reimbursement." (TRE's proposed addition in italics and deletion marked by strikethrough).

TRE looks forward to further consideration of these and other ideas as this rulemaking advances.

Respectfully submitted,

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